



ITECHLAW[®]
INTERNATIONAL TECHNOLOGY LAW ASSOCIATION

2019 EUROPEAN CONFERENCE

October 30 - November 1, 2019
Dublin, Ireland

#ITLdublin2019



A Global Comparative Analysis of Technology Company M&A Transactions



Rob Weiss, Moderator
Barnes & Thornburg LLP
United States



Michelle Vigod
Goodmans LLP
Canada



Alessandra Simons
Goodwin Procter LLP
United States



Sven Greulich
Orrick
Germany



Clara-Ann Gordon
Niederer Kraft Frey
Switzerland

General Overview: High-Tech vs. Low-Tech Deals

– High-Tech:

- Highly developed technology
- Protected by classic IPR (Patents, Designs, Copyrights)
- Licenses / Third Party Rights
- Distribution Agreements

– Low-Tech:

- Human Resources
 - Know-How / Knowledge (no IP Protection)
 - User Data
 - Market-Recognition, Brands
-

Considerations in Both Deals

Phase	High-Tech Deal	Low-Tech Deal
First contact	NDAs / Analysis of Business Model and Technology	
Due Diligence	IP / Technology / Data	Employees / Know-How Potential
Negotiation	Valuation / Pricing of Assets, IP, Technology, etc.	
	Reps & Warranties / Indemnifications	Earn-out / Purchase Price Allocation
Signing	SPA	SPA / APA
		HR Retention / Non-Competition
Closing	IP Assignments	Transfer of Employees
	Waiver of CoC Termination Rights (for SPA deals)	
	Approval of Contract Transfers (for APA deals)	Transfer of Know-How Documentation
	Data Transfer	
Post-Closing Integration	Transfer of Development Documentation for Software / Technology	
	Amendment of IP Registrations (if necessary)	Integration / Retention of Employees
	Amendment of Domain Names and Trademarks (if necessary)	
	Integration / Application of New Technology	

Key Diligence Issues: IP and Personnel

- IP-Related Contracts (all contracts?):
 - In-licenses, out-licenses, shrink-wrap, development agreements, JVs, non-practicing entity licenses, etc.
 - Contracts that are problematic in the context of an acquisition (e.g., provisions that would extend to affiliates, source code escrows, contracts that terminate upon or prohibit changes of control, evergreen contracts, MFNs, etc.)?
- IP-Related Disputes
- Open Source: What's in the codebase and what can/should be remediated before the M&A process starts.
 - Open source scan ahead of time to get an inventory.
 - Evaluate potential conflicts (e.g., distribution of GPL'd code) and remediate any major issues.

Key Diligence Issues: Privacy

- Data breaches or security incidents experienced by the Company
- Current and prior privacy and data security policies, including web site privacy policies, incident response policies
- Specific steps that the Company has taken to develop and implement a European General Data Protection Regulation (GDPR)
- Solutions to legitimize cross-border data transfers from the EU to the US, consider registering for the EU-US Privacy Shield program

Key Diligence Issues: Privacy

- Security measures that the Company has adopted and implemented to secure personal data
- Where and how all personal data is stored
- Material investigations, claims, lawsuits and/or enforcement actions involving privacy and/or data security matters
- Penetration testing/cyber security testing

Key Diligence Issues: Labor & Employment

- IP assignments
- Employee/Contractor Classifications
- Wage and Hour Practices
- Non-Compete/Non-Solicit/No-Hire enforceability
- Liability/severance cost arising from “new paper”

Key Diligence Issues: Labor & Employment

- Immigration status/right to work
- Employment Records
- Employment Policies and Practices
- Litigation History/Government Audits
- Reputation for Positive Culture; D&I; sexual harassment/misconduct

Representation & Warranty Insurance

- Risk Allocation
- Advantages in Technology Transactions
- Types of R&W Policies
- Exclusions
- Underwriting and Due Diligence Process

Regulatory Considerations: Antitrust

- **Killer Acquisitions**

- Acquisition of young technology companies by established players (GAFA and others) with the (implicit) goal to prevent the emergence of new competitors.
- As these young technology companies often lack meaningful revenues, their acquisition does not trigger classical revenue-based merger filing criteria.
- Recently, Germany and Austria introduced "size of the transaction" (in particular purchase price) filing requirements with thresholds of €400k (Germany) and €200k (Austria), respectively. Currently, the EU and France are still sitting on the fence.

Regulatory Considerations: FDI Regulations

- **CFIUS – Recent Trends and Developments**
 - Since November 2018: filing obligation for certain types of foreign investment transactions (critical technology) plus CFIUS's jurisdiction has been expanded (transactions that do not result in control by a foreign person over a U.S. business)
 - CFIUS tends to be more aggressive today in finding national security concerns and impeding foreign investment. Concerns about Chinese and Russian investment in the United States have become more and more pronounced.
 - CFIUS screening proceedings tend to take substantially longer today than they did as little as two years ago.
 - In September 2019, U.S. government published proposals for an overhaul of CFIUS review; CFIUS is expected to finalize the regulations by February 2020.

Regulatory Considerations: Data Privacy

- **GDPR – Recent Trends and Developments**
 - Increasing enforcement by regulators. During the first year since the enactment of the GDPR, across the board fines tended to be relatively rare and were often rather at the low(er) end. Arguably, here the times are changing fast. The ICO UK, the DPC in Ireland and the CNIL in France have already threatened, respectively, issued multi million fines. The German data protection commissioners have this month issued a guidance on how to calculate fines which, if applied, also leads to significantly increased fines.
 - Data privacy due diligence is becoming increasingly relevant for investors (cf. Marriot proceedings by the ICO).
 - "No consent, no cookie!" – recent rejection of "passive acceptance" solutions by the CJEU.

Regulatory Considerations: Data Privacy

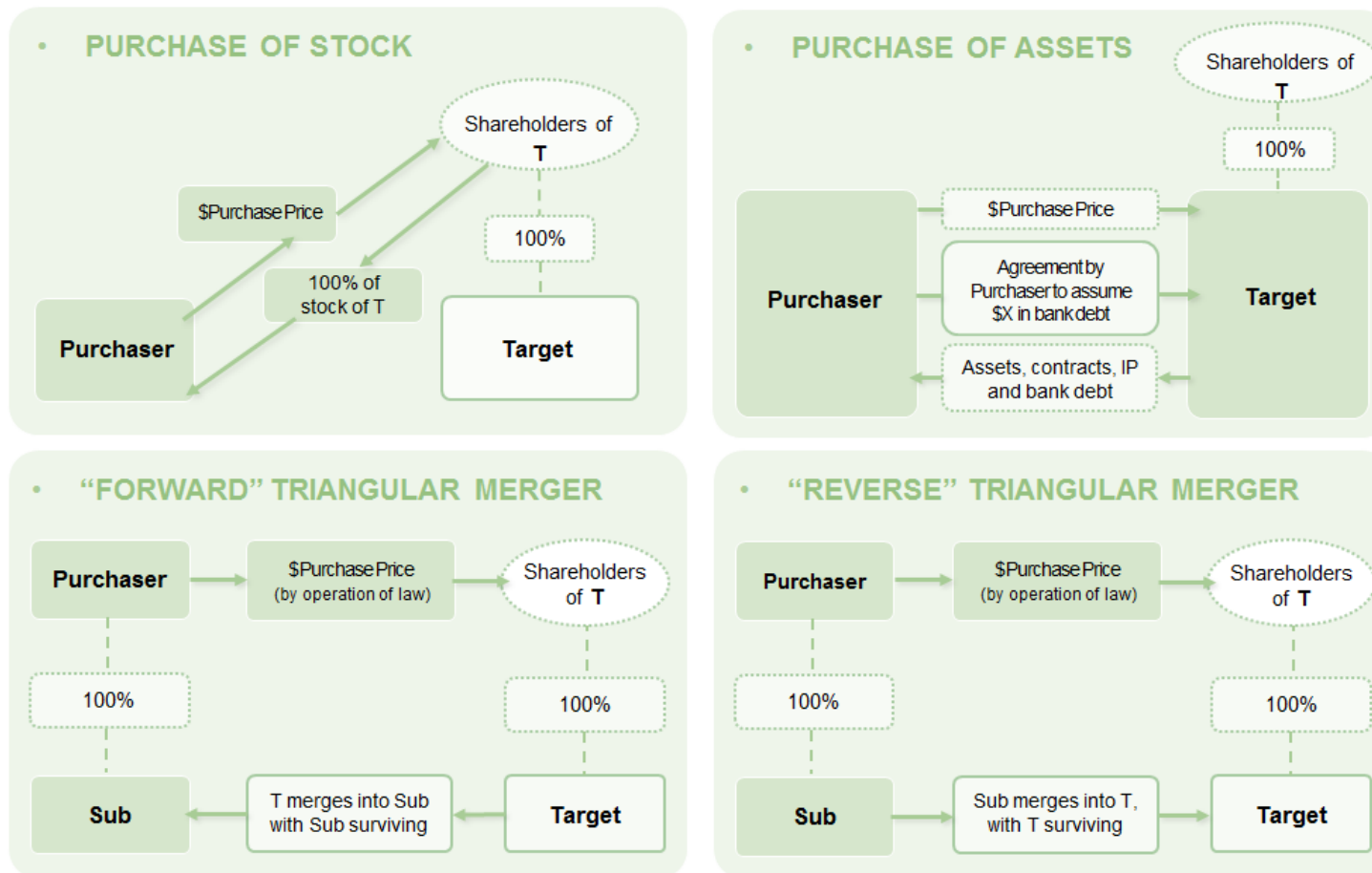
- **CCPA – the Next Lawyers Full Employment Act?**

- Akin to the GDPR, the CCPA will create compliance obligations for companies that collect or process a wide range of types of personal information from CA residents, irrespective of such company's domicile.
- While in early October, six CCPA amendments were signed into law by the California Governor, as well as an amendment to the state's breach notification statute, all in order to clarify ambiguities and to address discrepancies, other CCPA amendments have either failed or will have to wait until next year for further consideration.
- The risk of fines, business shutdowns and highly visible private actions put privacy and cyber compliance high on buyers' agendas. That includes all stages of the deal from due diligence, to the acquisition agreement and the PMI phase.

Indemnification For IP Infringement

- What/who should the indemnity protect?
- What should be included in reps and warranties?
- How are IP reps classified in comparison to general reps?
- How are infringement issues dealt with in the purchase agreement?

Typical Transaction Structures



Other Transaction Structure Considerations

- U.S. based deal versus everywhere else:
 - Alternative transaction structures
 - Approach to due diligence/disclosure/indemnity
 - Consideration mix
 - “U.S. Tech Acquirer” terms
- “Venture-backed” model vs “PE/Sponsor-backed model”
 - Stockholder representative
 - Logistics
 - Signing/Closing Thresholds
 - Drag-along rights
- Tax